MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/ 2019

BIA7114 – INVESTMENT ANALYSIS
(MBA Full Time)

27 May 2019
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **ELEVEN (11)** pages (including the cover page).

2. Answer **ALL** questions. The mark distributions are given in parentheses.

3. Write all your answers in the **Answer Booklet** provided.

Question 1

Please read the excerpt and answer the following questions (i), (ii), (iii) & (iv).

A Modern Approach to Asset Allocation

Is your portfolio designed to maximize reward and minimize risk no matter the market conditions? If you're not sure, read ahead.

Matthew Cochrane
(TMFCochrane)
Jul 25, 2018 at 3:34PM

The phrase "Don't put all your eggs in one basket" is another way of saying that no one should risk all of their resources on any single idea, venture, or asset. Put simply, if all your eggs are in one basket, and the basket breaks or spills, then you'll lose all your eggs.

It's especially important to follow that advice in your financial life by diversifying your investments across different types of assets and securities. Ideally, diversification lowers risk in a portfolio while still enabling returns high enough to achieve an investor's financial goals. For instance, a portfolio consisting of just one stock is far too risky -- no matter how strong the bullish argument for that stock may be. A variety of factors could derail the investment, including fraud, deteriorating economic conditions, and increased competition.

At the same time, investors who choose a less "risky" investment class -- say, a 30-year U.S. Treasury bond -- will probably face other risks. Namely, while these investors face far less danger of losing their principal, they run a very real risk of not achieving returns high enough to reach their goals or even maintain their buying power in the face of inflation.

(Source: The Motley Fool, LLC, US, 2019)

(i) Explain the importance of asset allocation. (6 marks)

(ii) Explain each different type of investment classes. In your opinion, what would be the perfect asset allocation? (8 marks)

(iii) In the aspect of asset classes, how can one reduce the overall risk level of his/her investment portfolio? (6 marks)

(iv) Explain why one need to consider a global allocation. (5 marks)

(Total: 25 marks)

Continued....

Question 2

(a) Explain how efficient market hypothesis affects investors' decision when investors form their portfolios.   (8 marks)

(b) Explain arbitrage pricing theory.   (7 marks)

(c) You are working at a fund management company and managing a well-diversified portfolio. Your boss asks you to perform both technical and fundamental analysis to beat the market. If the market is efficient, discuss whether you can generate excess profits using these two techniques. Under what circumstance that you may have the opportunity to consistently earn above-average rate of return.   (10 marks)

(Total: 25 marks)

Question 3

(a) Recently you have received a tip that the stock of QL Relax is going to rise from RM76.00 to RM85.00 per share over the next year. You know that the annual return on the FBMKLCI has been 13% and the 90-day T-bill rate has been yielding 3% per year over the past 10 years. If beta for QL Relax is 1.0, discuss whether you will purchase the stock.   (8 marks)

(b) Explain why total risk is not relevant under the Capital Asset Pricing Model (CAPM) theory and also explain beta.   (8 marks)

(c) In studies of the efficient market hypothesis, many additional factors affect the estimates of expected returns and the empirical results had shown better predictive ability by using different approaches/strategies. Suggest two 'anomalies' and discuss how they affect security return.   (9 marks)

(Total: 25 marks)

Question 4

(a) Explain the top-down security analysis and its three components.   (10 marks)

Continued....

(b) Read the information below carefully and answer the question (i).

About My EG Services Bhd
My E.G. Services Bhd provides E-Services between the Malaysian Government and its citizens and businesses. The Company's services include electronic delivery of driver and vehicle registrations, licensing and summons services and utility bill payments.
(Source: Bloomberg database)

MyEG and Scicom stocks plunge Tan Xue Ying
The Edge Financial Daily,
December 13, 2018 08:55 am +08

KUALA LUMPUR: Shares of e-government service providers tumbled further yesterday as Putrajaya's scrapping of the RM3.5 billion national immigration control system (SKIN) project on Monday continued to rattle investors, prompting a stampede for the exit ahead of any possible axing or non-renewal of other such projects amid drastic cost cuts by the administration and its new-found inclination to handle projects in-house.

Already only worth about a third of its value after Pakatan Harapan's shocking win in the May general election, MyEG Services Bhd came under renewed pressure yesterday, crumbling 17% to 84 sen.

An e-government service provider involved in the renewal of foreign worker permits, MyEG is one of the patch-on systems reportedly put under review by the home affairs ministry, the immigration department and the Malaysian Administrative Modernisation and Management Planning Unit (Mampu), Deputy Home Affairs Minister Datuk Mohd Azis Jamman indicated in Parliament last week.

MyEG's fifth consecutive losing session yesterday marked its biggest one-day drop since Oct 19.

Currently valued at just under RM3 billion, MyEG was one of the 10 worst performers on Bursa Malaysia yesterday and the most actively traded stock. A total of 231.86 million shares changed hands, approximately four times more than its 200-day average trading volume of 55.34 million shares.

Also on the receiving end was Scicom (MSC) Bhd, which offers digital government services and solutions for federal, local and state government agencies.

The stock, which hit limit down after its last done price dropped by 15 sen on Tuesday, sank another 15 sen yesterday to finish at RM1, its lowest since September 2014.

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However, the benchmark index closed in positive territory, up 0.64%.

On Monday, Putrajaya's termination of SKIN, for which the previous Barisan Nasional government had awarded Prestariang Bhd a 15-year concession, had sent the stock to new multi-year lows.

Prestariang has said it will be compensated for the concession termination although the quantum is not known. The counter finished unchanged yesterday at 29 sen.

In view of the sharp drop and heavy trading, MyEG said it queried its board of directors and major shareholders but said they were unaware of what may have caused the unusual market activity at the counter.

"The company wishes to inform that to the best of its knowledge after making due enquiry with the board of directors and major shareholders of the company seeking the cause of the unusual market activity in the company's securities, the company is not aware of any factor which may have contributed to the unusual market activity, which led to the sharp fall in share price and increase in volume recently," MyEG said in a filing with Bursa Malaysia.

These queries include any unannounced corporate developments, including those in negotiation or discussion stages, and any rumour concerning the group's business and affairs.

In response to complaints that it had been slow to deal with issues including lost permits, MyEG had previously stressed that it does not have the authority to approve the printing of any permit under the temporary foreign worker, or PLKS, permit.

It pointed out that a real-time status-checking facility is available on the MyEG portal to allow users to check the status of their application, and approval is needed from the immigration department prior to the printing and delivery of the PLKS permits.

"The company will make the necessary announcement to Bursa Securities of any material information in compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Bhd, in particular, paragraph 9.03 of the Main LR on immediate disclosure obligations," read the filing, which was released on to the stock exchange after market close.

(Source: The Edge Financial Daily, 13 December 2018)

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Below financial information of MyEG is sourced from Reuters, 20 March 2019.

CONSENSUS ESTIMATES ANALYSIS

	# of Estimates	Mean	High	Low	1 Year Ago
SALES (in millions)					
Year Ending Sep-19	7	551.89	633.00	451.77	--
Year Ending Sep-20	7	641.24	782.12	536.90	--
Earnings (per share)					
Year Ending Sep-19	7	8.04	10.40	6.90	--
Year Ending Sep-20	7	9.51	12.60	7.60	--

Sales and Profit Figures in Malaysian Ringgit (MYR).

VALUATION RATIOS

	Company	Industry	sector
P/E Ratio (TTM)	57.82	31.87	11.09
P/E High - Last 5 Yrs.	--	65.14	24.64
P/E Low - Last 5 Yrs.	--	26.80	9.27
Beta	2.97	0.89	1.16
Price to Sales (TTM)	9.57	8.68	25.62
Price to Book (MRQ)	7.61	8.52	1.84
Price to Tangible Book (MRQ)	8.14	15.73	2.90
Price to Cash Flow (TTM)	45.06	44.86	15.01
% Owned Institutions	--	0.00	0.00

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DIVIDENDS

	Company	industry	sector
Dividend Yield	1.36	1.52	2.64
Dividend Yield - 5 Year Avg	--	1.51	1.79
Dividend 5 Year Growth Rate	--	9.89	29.22
Payout Ratio(TTM)	0.00	28.63	21.29

GROWTH RATES

	Company	industry	sector
Sales (MRQ) vs Qtr. 1 Yr. Ago	6.42	49.11	-3.83
Sales (TTM) vs TTM 1 Yr. Ago	14.60	13.65	5.94
Sales - 5 Yr. Growth Rate	--	12.81	5.82
EPS (MRQ) vs Qtr. 1 Yr. Ago	1.41	-808.71	-24.80
EPS (TTM) vs TTM 1 Yr. Ago	-65.38	--	--
EPS - 5 Yr. Growth Rate	--	11.17	14.67
Capital Spending - 5 Yr. Growth Rate	--	10.87	8.38

FINANCIAL STRENGTH

	Company	industry	sector
Quick Ratio (MRQ)	1.42	1.93	1.92
Current Ratio (MRQ)	1.43	3.25	2.40
LT Debt to Equity (MRQ)	15.72	27.99	10.26
Total Debt to Equity (MRQ)	21.38	32.16	17.54
Interest Coverage (TTM)	103.60	35.58	10.25

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Profitability

Net Income

	2018	5-year trend
Net Income Growth	-48.81%	
Sales or Revenue	44.27 M	
Sales or Revenue Growth	-88.07%	
EBITDA	-112.20 M	
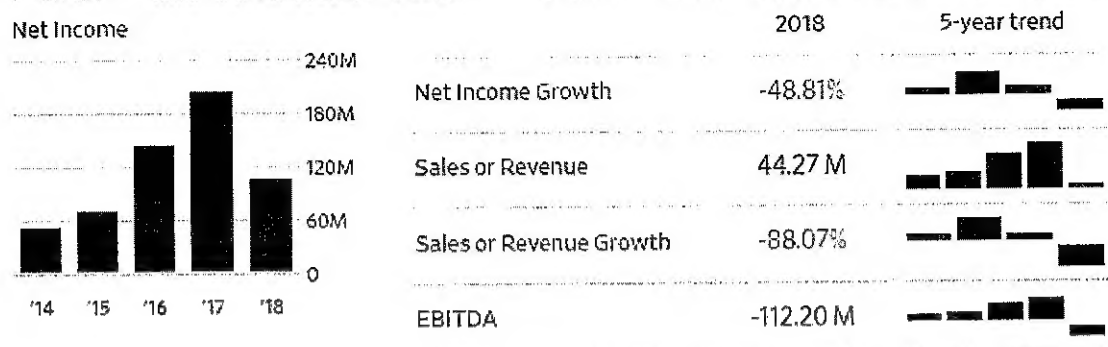
MANAGEMENT EFFECTIVENESS

	Company	industry	sector
Return on Assets (TTM)	7.79	9.25	12.31
Return on Assets - 5 Yr. Avg.	--	8.92	10.21
Return on Investment (TTM)	10.25	11.15	16.21
Return on Investment - 5 Yr. Avg.	--	12.42	13.57
Return on Equity (TTM)	12.22	13.35	17.52
Return on Equity - 5 Yr. Avg.	--	14.46	14.64

(Source: Reuters database, 2019)

The Star Online
MyEG posts RM58m net profit in Q1, to expand Asian presence
Tuesday, 26 Feb 2019

KUALA LUMPUR: E-government services provider MyEG Services Bhd posted net profit of RM58.65mil in its first quarter ended Dec 31, 2018 which was a turnaround from the preceding quarter ended Sept 30, 2018 and it plans to expand its regional presence in Asia.

It announced on Tuesday this was an improvement compared with a loss of RM97.47mil in the preceding quarter due to a one-off impairment of amount due from an associate company of RM95.45mil and impairment of equipment amounting to RM76.29mil.

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However, this was offset by the recognition of deferred revenue of RM19.94mil arising from the sale of solution in previous financial years, to an associate company; and an increase in commercial services, MyEG's revenue was RM116.23mil while its earnings per share were 1.7 sen in the first quarter. There was no year-on-year comparison as it had changed the financial year.

When compared with the preceding quarter ended Sept 30, 2018, its revenue fell by nearly 16% from RM138.33mil.

The decrease in revenue was due to a one-off recognition of deferred revenue of RM19.94mil arising from the sale of solution in previous financial years, to an associate company. The foreign worker rehiring programme had also been completed.

However, it was offset by an increase in commercial services such as motor vehicle trading related services, financing services, sale of tax monitoring system. There was also contribution from Cardbiz Group which deploys credit card terminals and merchant acquiring services.

"For the financial year ending (FYE) Sept 30, 2019, MyEG will continue to introduce innovative services leveraging on new technology to drive our growth for FYE2019.

"We are also expanding our regional presence in Asia with the recent introduction of new joint ventures and services in the Philippines, Bangladesh and Indonesia.

"We are bringing our technology and expertise to these countries and hope to introduce innovative services which will enhance the efficiency in these new markets and allow us to tap on the continuous growth of transactions where the population in these countries are becoming more tech savvy," it said.

(Source: The Star Online, 2019)

MyCC accepts changes to MYEG system, daily penalty ceases

KUALA LUMPUR, March 5 — The Malaysian Competition Commission (MYCC) has accepted the changes made by M.Y. EG Services Bhd (MYEG) to its online foreign worker renewal system.

MYEG was notified by MYCC via a letter dated March 4, 2019, following several meetings held with MYCC earlier.

"As such, with the acceptance of the changes made, the daily penalty of RM7,500 will cease with immediate effect. Penalties up to the date of the acceptance amounted to RM9,644,700, of which MYEG had paid a total of RM6,412,200," it said in a statement today.

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MYEG said with the acceptance by MYCC, the board of directors believed the group had fully complied with the decisions made earlier by the competition commission and its Competition Appeals Tribunal (CAT).

"However, the appeal which MYEG had filed to the Court of Appeal will continue," it said.

Earlier, MYEG had filed an appeal with the Court of Appeal against the decision made by MYCC and the CAT, and to appeal against the penalty imposed by MYCC.

"MYEG wishes to reiterate to all users that the changes required are in relation to the user interface of the group's portal and does not affect the ongoing delivery and provision of all its services," it added. — Bernama

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(Source: Bernama, 2019)

(i) Discuss your investing decision on MYEG based on company analysis.   (15 marks)

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SELECTED EQUATIONS

1) $\text{Variance} = \dfrac{\sum_{i=1}^{n} [R_i - E(R)]^2}{n}$

2) $\text{Standard deviation} = \sqrt{\text{Variance}}$

3) $COV_{AB} = \sum_{i=1}^{n} [(R_{Ai} - E(R_A))(R_{Bi} - E(R_B))]P_i$

4) $E(R_{port}) = \sum_{i=1}^{n} W_i E(R_i)$

5) $\text{Correlation}_{AB} = \dfrac{COV_{AB}}{\sigma_A \sigma_B}$

6) $\beta eta_i = \dfrac{COV(R_i, R_m)}{\sigma^2(R_m)}$

7) $R_i = RFR + \beta_i(R_m - RFR)$

8) $\sigma_{port} = \sqrt{W_1^2 \sigma_1^2 + W_2^2 \sigma_2^2 + 2W_1 W_2 r_{1,2} \sigma_1 \sigma_2}$

End of Paper